

Portfolio Review

The Australian equity market declined 6.2% in January as investors worried about a possible slowdown in China on the back of a less accommodative monetary stance, rising CDS spreads on Greek sovereign bonds, and worries about financial sector regulation in the US. This all added up to short term selling pressure on risky assets.

Given the strong activity data and the pick-up in inflation in recent months, we think it's not surprising that the Chinese Govt is stepping up efforts to contain total lending to about 7.5 trillion RMB in 2010, down from about 9.6 trillion RMB in 2009. We consider actions to slow credit growth are quite welcome at this stage as the bigger risk for investors may not be that China tightens too much over the next few months, but rather that China doesn't tighten enough.

Dec qtr US GDP of +5.7% also beat market expectations comfortably due to a predictably strong boost from inventories, but we did see a boost from capex for the first time. We also saw the January ISM report (>50 indicates economic expansion) come in ahead at 58.4 versus consensus 55 as purchasing managers reported acceleration in activity.

Last year's rally was driven by P/E multiple expansion with the market now requiring earnings upgrades to sustain the rally. Earnings have been in upgrade mode since July and this has continued into the new year with upgrades for resources (higher commodity prices), banks (CBA) and several leading industrial cyclical (Qantas, Computershare, Flight Centre and James Hardie), insurance (IAG) and media (News Corp).

In the US we have had a good lead with over 80% of US companies reporting Q4 earnings beating consensus comfortably. We believe it is still early days in the upgrade cycle, but we do not expect the reporting season to be all one way traffic and we have seen some downgrades in energy, retailers and contractors. The strong A\$ will be a headwind, developed world economies are still soft and even the domestic economy has some soft spots (private capex).

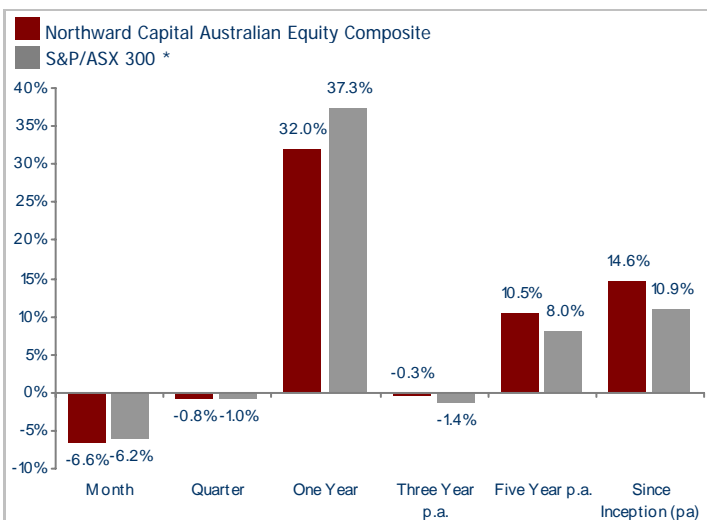
During January we initiated a new position in Computershare and lifted our holdings in IAG, Suncorp, News Corp, Woolworths, NAB and SP Ausnet. Portfolio sales of note included PanAust, CBA, and Eircom (following its delisting after the completion of the Scheme Implementation Agreement with STT Communications) while we exited ASX to fund Computershare.

Fund Results

Portfolio Results	Month
Northward Capital Australian Equity Composite	-6.58%
S&P/ASX 300 *	-6.17%
Value Added	-0.42%

Stock Contributors	Overweight (+) Underweight (-)
Wesfarmers	Not held
Suncorp	+
QBE Ins Grp	Not held
BHP Billiton	-
Crown Ltd	+

Stock Detractors	Overweight (+) Underweight (-)
Equinox	+
Macquarie Group	Not held
Western Areas	+
Oil Search	+
Westfield Group	Not held



- (1) Market value of the investment as at month end was \$2,157.70 Million
- (2) Inception return is calculated from 1 June 2004
- (3) Returns are calculated gross - before taxes, before fees
- (4) * Benchmark was S&P/ASX 300 ex LPTs prior to 1 May 2009
- (5) Composite of accounts with similar benchmark (9 accounts in current month)
- (6) Risk stats (where applicable) based on mthly returns over rolling 3 year periods

Fund Composition

Active Stock Positions

Underweights / Overweights versus benchmark

Stock	Monthly Stock Returns	Underweight / Overweight
Asciano Group (3.2%)	2.8%	-6.0%
Rio Tinto (5.3%)	2.6%	-9.2%
Crown Ltd (2.6%)	2.2%	-3.5%
Lend Lease (2.2%)	1.8%	-8.1%
Woolworths (4.7%)	1.7%	-7.6%
QBE Ins Grp (not held)	-2.2%	-10.5%
Westfield Group (not held)	-2.5%	0.8%
BHP Billiton (9.5%)	-2.7%	-8.6%
Wesfarmers (not held)	-2.9%	-12.0%
ANZ Banking (1.5%)	-3.6%	-5.0%

Sector Diversification

Underweights / Overweights versus benchmark

Sector	Monthly Sector Returns	Underweight / Overweight
Energy (9.7%)	2.6%	-9.8%
Industrials (9.3%)	2.4%	-4.6%
Consumer Discr. (5.7%)	1.7%	-4.9%
Materials (26.2%)	1.6%	-9.0%
Utilities (2.1%)	0.7%	-3.6%
Telecomm Svc (4.3%)	0.4%	-3.1%
Info Tech (1.1%)	0.3%	-1.1%
Consumer Staples (8.3%)	0.1%	-8.4%
Health Care (3.0%)	-0.5%	-5.5%
Financials (30.3%)	-3.5%	-4.3%
REITs (0.0%)	-6.1%	-3.0%

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